

Message Text

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ACTION NODS-00

INFO OCT-01 ISO-00 /001 W
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P 241808Z JAN 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC PRIORITY 5145

S E C R E T SECTION 01 OF 05 BONN 01372

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E.O. 11652: GDS
TAGS: PARM, MPOL, ECON, GW
SUBJECT: CONVERSATION WITH CHANCELLOR SCHMIDT:
ECONOMIC QUESTIONS; SALT: NEUTRON BOMB;
INTERNATIONAL QUESTIONS

REF: BONN 1078

BEGIN SUMMARY. SCHMIDT RECEIVED ME AT MY REQUEST FOR ONE HOUR'S CONVERSATION JANUARY 23. HE THOUGHT MANY GOOD THINGS HAD HAPPENED IN U.S.-FRG RELATIONS, NOTING IN PARTICULAR THAT TENSIONS AND EMOTIONS ABOUT NUCLEAR ENERGY QUESTIONS WHICH HAD CHARACTERIZED EARLY MONTHS OF 1977 HAD DISSIPATED. HOWEVER, WHILE NOT WANTING TO APPEAR TO COMPLAIN OR BE THE "DIFFICULT GERMAN" HE WISHED TO USE OUR CONVERSATION TO EXPRESS HIS CONCERNS ON SEVERAL MATTERS OF INTEREST. HE STRESSED HIS COMMENTS SHOULD BE HELD IN STRICTEST CONFIDENCE AND THAT THEY WERE INTENDED FOR THE PRESIDENT. ON ECONOMIC MATTERS AND THE DOLLAR, HE EXPRESSED HIMSELF ALONG FAMILIAR LINES AS REFLECTED MOST RECENTLY IN HIS SPEECH TO BUNDESTAG JANUARY 19. U.S. ACTIONS TO SUPPORT DOLLAR HAVE BEEN WELCOMED, BUT HE THOUGHT MORE NEEDED TO BE DONE; HE SUGGESTED CONSIDERATION MIGHT BE GIVEN TO GOLD SALES. ON SALT, HE ALSO EXPRESSED

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FAMILIAR CONCERNS REGARDING A DEVELOPING IMBALANCE IN SUB-STRATEGIC WEAPONRY, NOTING PROPOSED LIMITATIONS ON CRUISE MISSILES WHILE SOVIETS PROCEED WITH SS-20, BACKFIRE AND CONVENTIONAL BUILD-UP. ON NEUTRON WEAPON, HE HOPED PRESIDENT WOULD TAKE DECISION ON PRODUCTION WITHOUT LINKING IT TO DEPLOYMENT SO THAT WEAPON COULD BE USED AS BARGAINING TOOL. HE FELT IT WAS UNWISE TO

EXPECT EUROPEANS -- AND ESPECIALLY FRG (A NON-NUCLEAR POWER) -- IN EFFECT TO DECIDE ON PRODUCTION AND INTRODUCTION OF NUCLEAR WEAPON. IF IT BECOMES NECESSARY TO DEPLOY NEUTRON WEAPON, THEN PRESIDENT COULD RELY ON HIM. SCHMIDT ALSO COMMENTED BRIEFLY ON MIDDLE EAST, HORN OF AFRICA, TURKEY AND BREZHNEV'S HEALTH. HE WELCOMED SECRETARY'S TRIP TO TURKEY AND PROSPECT OF RESUMPTION OF U.S. AID. SCHMIDT FEARS THAT SOVIETS MAY HAVE SOME SUCCESS IN DRAWING TURKEY AWAY FROM ALLIANCE. SCHMIDT SAID HE ANTICIPATES WITH MUCH PLEASURE THE PRESIDENT'S VISIT AND ECONOMIC SUMMIT MEETING IN BONN DURING SECOND HALF OF JULY AND HE SENT WARMEST WISHES TO PRESIDENT. END SUMMARY.

1. CHANCELLOR RECEIVED ME JANUARY 23 FOR SLIGHTLY OVER ONE HOUR AT MY REQUEST FOR DISCUSSION PRECEDING MY RETURN TO U.S. ON HOME LEAVE. HE WAS ACCOMPANIED BY LOECK OF HIS STAFF; I WAS ALONE.

2. AFTER BRIEF DISCUSSION OF SITUATION PERTAINING TO RETURN TO EARTH OF SOVIET COSMOS SATELLITE (SEPTOL), SCHMIDT COMMENTED THAT MANY GOOD THINGS HAD TAKEN PLACE IN U.S.-FRG RELATIONS DURING PAST YEAR. IN PARTICULAR, HE NOTED THAT EMOTIONS AND TENSIONS OF EARLY 1977 RELATING TO QUESTIONS OF PEACEFUL USE OF NUCLEAR ENERGY SEEMED TO HAVE BEEN DISSIPATED.

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WHEN I REMARKED THAT WE STILL HAD SOME CONCERNS IN THIS FIELD, SCHMIDT ACKNOWLEDGED THAT THIS WAS SO AND SAID THAT THIS WAS ENTIRELY NORMAL. COUNTRIES HAVE DIFFERENT INTERESTS AND HE HAD THE FEELING THAT THESE DIFFERENCES WERE NOW RECOGNIZED. HOWEVER, HE WAS PLEASED THAT WE WERE NOW ABLE TO DISCUSS THEM IN A RATIONAL AND CONSTRUCTIVE WAY. HE MENTIONED THAT HE HAD BEEN SOMEWHAT PUZZLED BY NEWS ACCOUNTS HE HAD SEEN ABOUT THE RELEASE OF THE GUIDELINES ON EXPORT OF NUCLEAR MATERIAL DEVELOPED BY THE LONDON GROUP, SINCE SOME REPORTS INDICATED THE GUIDELINES AND THE RELEASE HAD BEEN

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ENTIRELY A U.S. INITIATIVE. I SAID THIS HAD NOT BEEN INTENDED BY THE U.S. AND THAT IF THERE WAS ANY IMPRESSION IN THIS DIRECTION IT UNDOUBTEDLY RESULTED FROM MISINTERPRETATION BY THE MEDIA.

3. SCHMIDT SAID HE WISHED TO UTILIZE THE REST OF OUR TIME TO EXPRESS HIS VIEWS ON SEVERAL MATTERS OF IMPORTANCE AND CONCERN TO HIM. HE STRESSED THAT HIS COMMENTS SHOULD BE HELD EXTREMELY CLOSELY AND THAT THEY WERE INTENDED FOR THE PRESIDENT. AS HE HAD SAID, THERE WAS MUCH THAT WAS POSITIVE IN U.S.-FRG RELATIONS, AND HE DID NOT WANT TO APPEAR OVERLY CRITICAL OR AS THE "DIFFICULT GERMAN," BUT HE THOUGHT IT MIGHT BE USEFUL TO SPEAK FRANKLY ON CERTAIN SUBJECTS. HE EMPHASIZED HIS ENTIRE DEVOTION TO THE U.S.-FRG RELATIONSHIP, WHICH HE CONSIDERS IS THE ABSOLUTE FUNDAMENTAL OF THE SECURITY OF THE WESTERN WORLD, AND HE FELT THAT THIS RELATIONSHIP WAS SUCH THAT FRANKNESS IN DISCUSSION SHOULD NOT BE MISINTERPRETED.

4. ON ECONOMIC MATTERS, SCHMIDT BEGAN BY SUMMARIZING REMARKS HE HAD MADE IN HIS GOVERNMENT DECLARATION JANUARY 19 (REFTEL) IN WHICH HE HAD SAID THAT THE STIMULATION PROGRAM UNDERTAKEN BY THE FRG REPRESENTED THE LIMIT OF WHAT COULD BE EXPECTED. AS IN HIS

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DECLARATION, HE WAS CRITICAL OF SEVERAL ARTICLES APPEARING RECENTLY IN THE NEW YORK TIMES WHICH IMPLIED THAT THE FRG SHOULD DO MORE IN THE DIRECTION OF ACTING AS A LOCOMOTIVE FOR WESTERN RECOVERY.

5. EXPANDING ON THESE THEMES, SCHMIDT SAID THAT THE PUBLIC DEFICIT IN THE FRG AMOUNTS TO SOME 4 PERCENT, WHICH IS THE HIGHEST SINCE HITLER'S TIME, WITH THE

POSSIBLE EXCEPTION OF 1975. HE FEARS THAT THERE IS INFLATIONARY POTENTIAL BUILDING UP WHICH COULD BE DANGEROUS FOR THE FUTURE. IN HIS EFFORTS TO ENLARGE THE MONEY SUPPLY, HE IS DEPENDENT ON THE COOPERATION OF THE BUNDESBANK TO ISSUE SUFFICIENT MONEY AND ON PRIVATE BANKS TO ENLARGE THEIR CREDITS. IF THE BUNDESBANK WERE TO DECIDE THAT THE PUBLIC DEFICIT WAS TOO HIGH, IT COULD SQUEEZE THE MONEY SUPPLY, WITH THE RESULT THAT THERE WOULD BE HIGHER INTEREST RATES, WITH A CORRESPONDING SLOW-DOWN IN INVESTMENT. HE EMPHASIZED THE INDEPENDENCE OF THE BUNDESBANK AND ITS DISLIKE OF THE CURRENT, EXTREMELY LOW INTEREST RATES; SCHMIDT NOTED THAT HE AND OTHERS IN THE GOVERNMENT HAD BEEN COMPELLED TO EXERT GREAT EFFORT TO PERSUADE THE BUNDESBANK TO AGREE TO REDUCE THE SHORT-TERM INTEREST RATE LAST NOVEMBER. SCHMIDT SAID HE THOUGHT THE U.S. SHOULD UNDERSTAND THIS BACKGROUND AND THE SENSITIVITY OF HIS POSITION. HE RECALLED THAT ERHARD HAD BEEN TOPPLED IN 1966, IN LARGE PART BECAUSE OF THE OPPOSITION OF THE BUNDESBANK TO HIS POLICIES -- HE DID NOT WANT TO BE IN THE SAME POSITION.

6. SPEAKING ABOUT THE FRAGILITY OF THE OVERALL WORLD ECONOMIC SITUATION, SCHMIDT SAID THAT HE THOUGHT THE PRESENT UNCERTAINTY AND "TURMOIL" RESULTED MAINLY FROM
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INFLATION CAUSED BY THE ENORMOUS AMOUNT OF DOLLARS CIRCULATING THROUGHOUT THE WORLD. HE THOUGHT THIS SITUATION COULD BE TRACED BACK TO THE VIETNAM WAR AND, OVERALL, THAT THIS WAS MORE IMPORTANT THAN THE EXCESS OF DOLLARS CAUSED BY U.S. IMPORTS OF OIL AT HIGH PRICES. SCHMIDT SAID THAT U.S. DOLLARS WERE POURING INTO THE REST OF THE WORLD AND THAT IN 1977 THE INDUSTRIALIZED COUNTRIES HAD BOUGHT UP SOME \$38 BILLION. HE DOUBTED IF THIS RATE WOULD CONTINUE IN 1978; IF THIS WERE THE CASE, THERE COULD BE A FURTHER DECLINE IN THE VALUE OF THE DOLLAR. ALSO, IT WAS POSSIBLE IF NOT CERTAIN THAT OIL PRICES WOULD GO UP LATER THIS YEAR AND THAT THE OPEC MIGHT DECIDE TO BASE THEIR SALES ON A MIX OF CURRENCIES. ALSO, OPEC MIGHT PUT ITS SURPLUSES IN OTHER CURRENCIES, SUCH AS THE DEUTSCHE MARK OR THE POUND RATHER THAN IN DOLLARS. THIS ALSO COULD AFFECT THE DOLLAR ADVERSELY. THE CHANCELLOR STRESSED THAT THESE THINGS WOULD NOT NECESSARILY TAKE PLACE, BUT HE WAS WORRIED ABOUT THE PROSPECTS.

7. SCHMIDT WAS PLEASED WITH THE STEPS WHICH HAVE BEEN TAKEN BY THE U.S. TO STRENGTHEN THE DOLLAR. THESE, TOGETHER WITH THE ENERGY BILL IF IT IS PASSED (I SAID

WE WERE OPTIMISTIC ABOUT PASSAGE IN THE NEAR FUTURE)
WOULD ALL BE OF HELP, BUT THE CHANCELLOR DID NOT FEEL
THEY WENT FAR ENOUGH. ESPECIALLY IN THE EVENT THAT

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PRESSURES DEVELOP AS HE HAD ALREADY OUTLINED, HE
THOUGHT CONSIDERABLY MORE WOULD BE NECESSARY, SUCH
AS SOME SALE OF GOLD BY THE U.S. OR BORROWING FROM
THE IMF. SCHMIDT EMPHASIZED THAT, IN HIS THINKING,
HE WAS NOT MOTIVATED PRIMARILY BY CONCERN REGARDING
FRG EXPORTS TO THE DOLLAR AREA, BUT RATHER BY HIS
GENERAL WORRY ABOUT THE STATE OF THE WORLD ECONOMY.

8. THE CHANCELLOR NEXT TURNED TO THE SALT NEGOTIATIONS
AND OTHER SECURITY MATTERS. AS HE UNDERSTOOD IT, THE
U.S. AND THE SOVIETS WERE MAKING PROGRESS TOWARD AN
AGREEMENT WHICH WOULD STABILIZE THEIR STRATEGIC
NUCLEAR ARMS TO AN EXTENT WHICH WOULD MORE OR LESS
APPROACH PARITY. HOWEVER, HE WAS CONCERNED ABOUT THE
"SUB-STRATEGIC" NUCLEAR LEVEL, NOTING THAT THE SOVIET
UNION APPARENTLY WILL BE LEFT FREE TO CONTINUE WITH
ITS PRODUCTION OF MODERN MEDIUM-RANGE MIRV'D MISSILES
AND THAT PRODUCTION OF THE BACKFIRE BOMBER WOULD
ALSO CONTINUE IN SUBSTANTIAL AMOUNTS. THESE WERE
WEAPONS WHICH POSED A DIRECT THREAT TO WESTERN EUROPE,
ALTHOUGH IT APPEARS THAT THE U.S. HAS ALREADY AGREED TO
PUT A SEVERE LIMIT ON GROUND-BASED CRUISE MISSILES
IN THE EUROPEAN AREA AND ALSO WOULD AGREE TO LIMIT
THE TRANSFER OF TECHNOLOGY ABOUT THE CRUISE MISSILES
TO ITS ALLIES. THE CHANCELLOR SAW THE SOVIET THREAT

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AGAINST WESTERN EUROPE, THE MIDDLE EAST AND SCANDINAVIA AS GROWING, WHILE WESTERN MILITARY ASSETS WOULD BE DECLINING. HE WAS ALSO WORRIED ABOUT THE GROWING DISEQUILIBRIUM IN CONVENTIONAL FORCES BETWEEN EAST AND WEST. AS HE UNDERSTOOD IT, THE SITUATION AT PRESENT WAS MANAGEABLE, BUT COULD BECOME MORE DISADVANTAGEOUS IN THE FUTURE FOR THE WEST. REALISTICALLY, HE DID NOT KNOW WHERE FURTHER CONVENTIONAL FORCES COULD COME FROM ON THE WESTERN SIDE, AND HE STRESSED THAT NO FRG POLITICAL LEADER COULD INCREASE THE PRESENT GERMAN CONVENTIONAL CONTRIBUTION OVER PRESENT LEVELS.

9. I NOTED THAT SOME OF THE WEAPONS SYSTEMS THE CHANCELLOR HAD MENTIONED, SUCH AS THE SOVIET SS-20, COULD BE THE SUBJECT OF FOLLOW-ON NEGOTIATIONS TO A SALT II AGREEMENT. MOREOVER, I POINTED OUT THAT THE LIMITATION ON GROUND-BASED CRUISE MISSILES IN EUROPE AS PRESENTLY ENVISAGED WOULD BE FOR A THREE-YEAR PERIOD AND THAT NO OPTIONS WERE FORECLOSED THEREAFTER. SO FAR AS TRANSFER OF TECHNOLOGY WAS CONCERNED, WE HAD DISCUSSED ONLY A NON-CIRCUMVENTION CLAUSE WITH THE SOVIETS IN CONNECTION WITH SALT II AND IT WAS NOT MY IMPRESSION THAT WE INTENDED TO LIMIT TECHNOLOGICAL INFORMATION TO OUR ALLIES. THE CHANCELLOR SAID HE WAS GLAD I HAD MENTIONED THESE POINTS AND HE ACKNOWLEDGED THAT IT WAS ENTIRELY POSSIBLE THAT HE DID NOT HAVE ALL OF THE RELEVANT INFORMATION CONCERNING THE STATUS OF THE NEGOTIATIONS. HOWEVER, HIS CONCERNS WERE IN THE DIRECTION HE HAD INDICATED. SO FAR AS THE THREE-YEAR PROTOCOL WAS CONCERNED, HE PERSONALLY FELT IT WAS PROBABLY UNREALISTIC TO EXPECT THAT, AFTER BANNING DEPLOYMENT OF CRUISE MISSILES IN EUROPE WITH THE RANGE OF 600 KILOMETERS, WE COULD REVERSE THIS POSITION AND
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DEPLOY LONGER-RANGE MISSILES. THE POLITICAL PRESSURES AGAINST SUCH A MOVE, ESPECIALLY IN AN ELECTION YEAR IN THE U.S., WOULD BE TOO GREAT, IN HIS VIEW.

10. ON THE ENHANCED RADIATION WEAPON, THE CHANCELLOR SAID THAT THE PRESENT SITUATION IS EQUIVALENT TO ASKING THE EUROPEAN COUNTRIES TO DECIDE ON THE PRODUCTION OF THIS WEAPON. THIS POSES PARTICULAR DIFFICULTIES FOR THE FRG, WHICH, BY INTERNATIONAL AGREEMENT,

IS NOT A NUCLEAR POWER. THE CHANCELLOR SUGGESTED THAT IT WOULD BE PREFERABLE, IF THE PRESIDENT INTENDS TO USE THE ENHANCED RADIATION WEAPON AS A BARGAINING FACTOR IN ARMS CONTROL NEGOTIATIONS, FOR HIM TO TAKE THE DECISION TO PRODUCE THE WEAPON IN THE U.S. IF NEGOTIATION DOES NOT BRING A SATISFACTORY RESULT AND IF OTHER CIRCUMSTANCES COMBINE TO INDICATE THAT THE ENHANCED RADIATION WEAPON SHOULD BE DEPLOYED, THEN, THE CHANCELLOR SAID, THE PRESIDENT COULD RELY ON HIM. WHEN I NOTED THAT OUR POSITION HAS BEEN THAT A PRODUCTION DECISION COULD NOT BE SEPARATED FROM THE DECISION TO DEPLOY, SINCE THE WEAPON COULD ONLY BE USED IN THE EUROPEAN AREA, SCHMIDT SAID HE PERSONALLY DID NOT FEEL THIS ARGUMENT NECESSARILY WAS VALID. HE RECALLED THAT, IN THE PAST, THE U.S. HAD DECIDED TO PRODUCE WEAPONS

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EVEN THOUGH DEPLOYMENT IN THE EUROPEAN THEATRE WAS NOT ASSURED, AND HE MENTIONED ADM'S AND CERTAIN TYPES OF MISSILES IN THIS CONNECTION.

11. SPEAKING BRIEFLY ABOUT THE MIDDLE EAST NEGOTIATIONS, SCHMIDT IMPLIED STRONG CRITICISM OF BEGIN'S STAND IN THE NEGOTIATIONS. IF ANOTHER WAR RESULTS FROM BEGIN'S INTRANSIGENCE, ISRAEL SHOULD BE MADE TO UNDERSTAND THAT THERE WOULD BE VERY LITTLE MORAL OR SUBSTANTIAL ASSISTANCE FORTHCOMING FROM THE WESTERN COUNTRIES IN SUPPORT OF ISRAEL. HE THOUGHT THE U.S. WAS IN THE BEST POSITION TO MAKE THIS CLEAR TO BEGIN.

12. WITH REGARD TO THE SITUATION IN THE HORN OF AFRICA, SCHMIDT SAID HE WOULD SIMPLY EXPRESS A GENERAL CONCERN THAT, PERHAPS AS A RESULT OF THE VIETNAM EXPERIENCE, THE U.S. SEEMED TO BE OVERLY RELUCTANT TO EXERT ITS INFLUENCE IN THIS KEY STRATEGIC AREA. AT THE SAME TIME, THE SOVIETS APPEARED TO BE MOVING MASSIVELY, TOGETHER WITH THE CUBANS, AND ETHIOPIA WAS BEGINNING TO RESEMBLE ANOTHER ANGOLA.

13. SCHMIDT SAID HE WAS CONCERNED ABOUT THE SITUATION IN TURKEY, WHERE THE TURKS SEEM TO BE INCREASINGLY DIVORCED FROM THE ALLIANCE AND MORE AND MORE SUBJECT
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TO SOVIET PRESSURES. HE THOUGHT IT WAS GOOD THAT THE SECRETARY HAD GONE TO TURKEY AND HE HOPED THE U.S. ADMINISTRATION WOULD BE SUCCESSFUL IN REESTABLISHING MILITARY AID FOR TURKEY. HE ACKNOWLEDGED THE IMPORTANCE OF SOME TURKISH MOVEMENT ON CYPRUS, BUT EXPRESSED DOUBTS THAT ECEVIT WOULD BE ABLE TO PREVAIL AGAINST THE MILITARY IN BRINGING THIS ABOUT.

14. IN RESPONSE TO MY QUESTION ABOUT HIS VIEW OF THE PROSPECTS FOR A BREZHNEV VISIT SOMETIME IN THE FUTURE, THE CHANCELLOR SAID ONLY THAT HE HAS THE IMPRESSION THAT BREZHNEV IS "REALLY SICK" AND THAT THERE IS A PERIOD OF GREAT UNCERTAINTY AT PRESENT WITHIN THE SOVIET LEADERSHIP. HE FEELS THAT THE DOMINANT THOUGHT IN THE KREMLIN AT PRESENT IS ABOUT "WHEN" BREZHNEV WILL LEAVE THE SCENE AND NOT "IF."

15. AS I WAS LEAVING HIS OFFICE, THE CHANCELLOR EMPHASIZED HOW MUCH HE

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LOOKED FORWARD TO PRESIDENT CARTER'S VISIT TO BONN
NEXT JULY AND TO THE ECONOMIC SUMMIT. HE ASKED THAT I
CONVEY HIS BEST AND WARMEST GOOD WISHES TO THE
PRESIDENT, WHICH I SAID I WOULD DO.

16. DR. LOECK TOLD ME AFTER WE HAD LEFT THE CHANCELLOR'S
OFFICE THAT THE CHANCELLOR WOULD BE SENDING A LETTER
SHORTLY TO THE PRESIDENT WITH MORE SPECIFIC INFORMATION
AND DETAILS CONCERNING SUGGESTED DATES AND PLANNING
FOR THE BILATERAL VISIT AS WELL AS THE SUMMIT.

17. COMMENT: THE CHANCELLOR SEEMED VIGOROUS AND IN
GOOD FORM, AS HE HAS ON SEVERAL RECENT OCCASIONS WHEN
I HAVE SEEN HIM. HIS CONCERNS ON ECONOMIC QUESTIONS,
SALT AND HIS POSITION ON THE ENHANCED RADIATION WEAPON
COME AS NO SURPRISE AND ARE CONSISTENT WITH WHAT WE
HAVE HEARD AND REPORTED PREVIOUSLY ON THESE SUBJECTS.
HIS OVERALL ATTITUDE TOWARD THE U.S. SEEMED UPBEAT AND,
AS HE STRESSED HIMSELF, HIS CONCERNS AS EXPRESSED TO
ME SHOULD NOT BE TAKEN AS DETRACTING FROM HIS
POSITIVE APPROACH OVERALL. IT IS EVIDENT THAT HE
VALUES HIS RELATIONSHIP WITH THE PRESIDENT, LOOKS
FORWARD TO THE OPPORTUNITY OF SEEING HIM SEVERAL TIMES
THIS YEAR, AND THAT HE WISHED TO USE THE OCCASION OF
OUR TALK TO PASS ON VIEWS TO THE PRESIDENT IN A SPIRIT

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OF FRANKNESS AND OPENNESS.

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Message Attributes

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